Special Issue

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# BENEATH THE SURFACE

## Superannuation Update

### MAXIMISE TAX FREE SUPERANNUATION COMPONENT

On 30 June 2007 the crystallisation rules kick in. Broadly these rules lock in the following components as tax free:

◊ undeducted contributions

◊ pre-July 1983 component

◊ concessional component

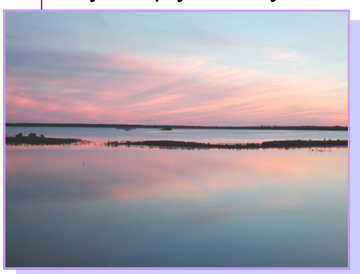
◊ post-June 1994 invalidity component

◊ CGT exempt component

As advised in our previous superannuation newsletter, if you have more than one superannuation fund **and** you have a pre-July 83 component in any one of them, you may maximise your tax free component by merging these funds prior to 30 June 2007. Making further undeducted contributions prior to 30 June 2007 will also maximise the pre-July 1983 component (soon to be tax free) of an accumulated superannuation entitlement. Please check with your financial advisor prior to taking action. **Remember** that here at Beneath the Surface, we actively encourage a close and open working relationship with you and your financial advisor.

### TAX SAVINGS STORIES

Some taxpayers took advantage of our earlier invitation to meet with us and their financial advisor face to face to discuss strategies that would benefit them. Believe it or not, some taxpayers don't want to pay any tax at all, whereas others have a moral dilemma with people who pay no tax at all, so these new strategies (fully legal) troubled some of our clients at first. Basically the new rules, don't avoid tax altogether (unless you are retired and fully in pension mode), they simply allow you, with careful planning, to cap your individual tax rate at 16.5%, rather than paying tax at the higher marginal rates.



In the current financial year (2006-07), **Wendy** and her advisor sold off some super fund assets, to free up cash that Wendy could receive from her super fund under the current rules tax free (ie up to $135,590). This gave Wendy the cash to be able to make the maximum deductible aged based contribution to her fund ($105,113) and thus reduce her sole trader taxable income down to the 16.5% tax rate.

Wendy, being over 65 and still working, will be commencing a transition to retirement pension from 1 July 2007. This pension income will be tax free to her and all the assets and income in her self managed superannuation fund that support this pension will also be tax free. As Wendy is still working, she will continue to have an accumulation account that receives self-employed contributions which remain taxed at 15%.

**Janelle** is over 60 and still working. She has been a client for many years and thus over time has learned and adopted some of our savings strategies. Together with these savings and the proceeds from selling some personally held shares she had sufficient cash to live on which enabled her to salary sacrifice 100% of her salary from 1 April 2007 into superannuation. On 1 July 2007 she will continue working and commence a transition to retirement pension which will enable her current salary level to come from two sources, ie from her company up to the marginal 16.5% limit (approximately $25,000) and the balance will come from a tax free superannuation pension. She will continue to salary sacrifice the remainder of her salary into an accumulation superannuation account which is taxed at 15%.

**Barbara** is a sole trader, working full time and is 71 years of age. As such we did the maximum allowable superannuation planning with her twelve months ago. However, she also took up our invitation to meet with her and her financial advisor recently and from 1 July 2007, she will be able (cash flow permitting) to cap her individual

*(Continued on page 2)*

Acknowledgements: National Tax and Accountants' Association

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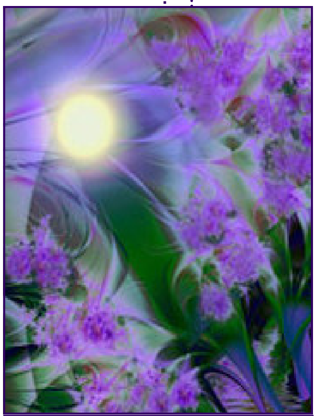
tax rate at 16.5% by contributing any business taxable income in the 30% and higher tax brackets (ie up to the $100,000 transitional limit) to superannuation which is taxed at 15%, and then pull it out again tax free via a pension or as a lump sum.

## CHECK LISTS

The following checklists summarise some of the main issues and strategies that should be considered **from 1 July 2007** under the new legislative reforms:

### Less than 45

Up to now the general overall plan has been to pay off the mortgage, educate the kids and then pump large sums into superannuation just prior to retirement. From 1 July 2007, the maximum annual concessional contribution will be capped at $50,000 so the government is effectively encouraging regular and consistent contributions to superannuation throughout a taxpayer's lifetime.



The art of Mindy Sommers - Color Bakery

### Aged between 45 and 54 (inclusive)

Once a person reaches a preservation age of at least 55, they can either draw down part or all of their superannuation entitlements in the form of a transition to retirement pension whilst still working, or in the form of a lump sum benefit and/or a pension benefit if they retire from the workforce.

*Action Items*

- ◊ Maximising deductible employer contributions through salary packaging, up to the following caps (ditto for self employed taxpayers):
  - ✧ $50,000 cap for people aged under 50 years of age or
  - ✧ $100,000 cap for people aged 50 or more up to 30 June 2012
- ◊ Making undeducted contributions to gain access to the co-contribution
- ◊ Making undeducted contributions (at any time) up to the $1 million capital gains tax cap, on the sale of an active asset which qualifies for either the 15-year asset exemption or the retirement exemption
- ◊ Making undeducted contributions up to $150,000 per annum (or up to $450,000 in one year under the 3-year averaging rules)
- ◊ Rolling over into a superannuation fund a pre 1 July 2007 employer ETP, or a post-June 2007 transitional employer ETP by 30 June 2012.

### Aged between 55 and 64 (inclusive)

These individuals are generally entitled to draw down their superannuation benefits, either as a non-commutable pension where they do **not** retire from the workforce, or as a lump sum or pension benefit where they retire from the workforce.

*Action Items*

- ◊ Maximising deductible employer contributions through salary packaging up to the $100,000 cap (up until 30 June 2012) – ditto for self employed taxpayers
- ◊ Making undeducted contributions to gain access to the co-contribution
- ◊ Making undeducted contributions (at any time) up to the $1 million capital gains tax cap, on the sale of an active asset which qualifies for either the 15-year asset exemption or the retirement exemption
- ◊ Making undeducted contributions up to $150,000 per annum (or up to $450,000 in one year under the 3-year averaging rules)
- ◊ Commuting (and rolling back) a pre-July 2007 pension (which has a pre-July 83 component) on or after 1 July 2007, in order to increase the tax-free component of the pension, for people under the age of 60
- ◊ Consider the withdrawal and re-contribution strategy if commencing a pension before 1 July 2007 or from 1 July 2007, in order to increase the tax-free portion of the pension (for people under the age of 60)
- ◊ Salary packaging (ditto for self employed taxpayers) into superannuation to commence a transition to retirement pension, ie converting a taxable salary (or net profit) into a rebatable pension (for people between age 55 and 59) or into a tax-free pension (for people aged 60 or more)
- ◊ Transferring a pre-July 2007 allocated pension to the new account based pension on or after 1 July 2007
- ◊ Commencing a market linked pension before 20 September 2007 to gain the benefits of the Centrelink 50% assets test exemption

**If you're aged <45 make regular contributions to your super throughout your lifetime.**

◊ Rolling over into a superannuation fund a pre 1 July 2007 employer ETP, or a post-June 2007 transitional employer ETP by 30 June 2012.

### AGED 65 OR MORE

These individuals are eligible to draw down their superannuation benefits in the form of a lump sum and/or pension.

*Action Items*

◊ Maximising deductible employer contributions through salary packaging up to the $100,000 cap (up until 30 June 2012) – ditto for self employed taxpayers [1]

◊ Making undeducted contributions to gain access to the co-contribution (for those individuals under 71 years of age) [1]

◊ Making undeducted contributions (at any time) up to the $1 million capital gains tax cap, on the sale of an active asset which qualifies for either the 15-year asset exemption or the retirement exemption [1]

◊ Making undeducted contributions up to $150,000 per annum [1]

◊ Salary packaging into superannuation to commence a tax-free pension [1]

◊ Transferring a pre-July 2007 allocated pension to the new account based pension from 1 July 2007

◊ Commencing a market linked pension before 20 September 2007 to gain the benefits of the Centrelink 50% assets test exemption

◊ Rolling over into a superannuation fund a pre 1 July 2007 employer ETP, or a post-June 2007 transitional employer ETP by 30 June 2012.

[1] *Generally, the individual for whom the contributions are made must satisfy the **work test** before the fund can accept the contribution. **Work test:** the individual must be gainfully employed (ie self employed or employed for gain or reward in any business, trade, profession, vocation, calling, occupation or employment) on at least a part-time basis during the income year in which the contribution is made. This work test will be satisfied if a member was gainfully employed for at least 40 hours in a period of not more than 30 consecutive days in that income year, before the contribution is made.*

*Furthermore, salary sacrificed and personal undeducted contributions generally **cannot** be accepted by the fund for an individual who is 75 and above.*

*A deduction can generally **only** be claimed for contributions made up to 30 June 2007 if the individual is less than 70 years of age. For contributions made on or after 1 July 2007, a deduction can generally only be claimed if the individual is less than 75 years of age.*

## HOLIDAYS, TRAINING AND BAS

Our office will be closed for annual leave and training from 30 June to 15 July 2007 inclusive. Please do your best to have your super fund BAS details to us by Tuesday 17 July 2007.

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